EU aid packages: Closing the prosperity gap
By Robert McDonald
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The gleaming new Athens international airport, the capital's underground railway extension complete with marble-clad platforms, and the Attiki Odos - Greece's first toll highway built to international standards - are showpiece infrastructure projects.

But without the assistance of successive aid packages from the European Union, these projects and many others would still be at the planning stage.

Greece has relied heavily on transfers from the EU structural funds to provide financing for infrastructure and other projects intended to help close the prosperity gap with the rest of the 15 member states. Under the current package, known as the third Community Support Framework, Greece stands to receive €26bn from Brussels towards a total investment programme worth €51.2bn

The current EU funding has contributed significantly to Greece's above-average rate of economic growth over the past three years. Transfers from the current package amount to 3 per cent yearly of gross domestic product. They are estimated to add 1.2 per cent to the yearly growth rate.

But the accession of 10 member-states, all but one poorer than Greece, will sharply reduce the Athens government's share of funds from the next structural package, due to be launched in 2007.

Greece's allocation could fall to between €13bn and €17bn, depending on the amounts the EU makes available and the quality of programmes submitted, according to government officials.

The expected cuts in funding raise questions about whether some unfinished projects will be completed, and whether Greece will be able to sustain the drive towards real convergence with its European partners.

"The fundamental choice of the Greek government is going to be whether to continue financing heavy infrastructure, and whether the Union is going to say yes to that, or whether to give more attention to softer measures like human resources development - or to address issues where there are problems such as business development and the attraction of foreign investment," says Giorgios Markopouliotis, director of the European Commission representation in Greece.

Greece has so far concentrated its structural fund allocations on investments in highways, airports, ports, bridges, sewerage and solid waste management projects, devoting only limited resources to improving the business environment and to education and training. The country's public investment budget is proportionally one of the EU's highest.

Better transport and communications would help to promote exports both to western Europe and the new EU member-states in central Europe, and make Greece more attractive to foreign investors, the government argued. In a country where tourism is the biggest industry, the waste disposal projects were seen as essential to boosting environmental standards.

The infrastructure projects have created several thousand jobs. But some ambitious projects, such as the 700km Egnatia highway across northern Greece, a north-south highway in western Greece, and the modernisation of the railway system, are running several years behind schedule.

Moreover, the focus on infrastructure has had only a limited impact on boosting Greek prosperity. When the first structural package was launched in 1989, Greek per capita income stood at 64 per cent of the EU average. At the end of 2002 - after the country had received about €25bn in EU funding, this figure had risen to 67 per cent. This compares with Ireland's leap in per capita income over the same period from 70 per cent to 122 per cent of the EU average.

The government has revised its target for achieving full convergence with the EU 15 from 2010 to 2015, on the basis that Greece could achieve growth rates at least 3.5 percentage points above the EU average. But the opposition claims this is still unrealistic.

"The average economic growth rate during the past six years has been something like 3 per cent. If we stick to that figure and the EU 15 stick to their average growth rate which is about 2.5 over the same period, it will take us something like 80 years to achieve convergence," says George Alogoskoufis, the shadow economy minister.

However, Greece is expected to propose more "soft measures" in programmes submitted for allocations from the post-enlargement package - although it will still seek funding to complete the unfinished infrastructure projects.

"Infrastructure was the primary need. In the next phase the primary need will be to organise government and the country," says George Hardouvelas, economic adviser to the prime minister. "Our objective should be to ensure that we create a business-friendly environment."

To secure the maximum amount of funding from the fourth package, Greece will select programmes that dovetail with EU policy priorities - mainly the Lisbon Agenda, which emphasises job creation, and measures to support small and medium sized-enterprises and develop the knowledge-based economy. Measures to improve education and training, including programmes for civil servants, would also be a priority.

Vassilis Rapanos, senior economic adviser at the finance ministry, says: "What is needed now is further improvement in liberalising markets, and boosting the performance of labour markets and the efficiency of the public administration."

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